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DEPARTMENT OF THE NAVY
Office of the Chief of Naval Operations
Washington, DC 20350-2000

OPNAVINST 5200.24A
OP-09B4
24 May 1990

OPNAV INSTRUCTION 5200.24A

From: Chief of Naval Operations
To: All Ships and Stations (less Marine Corps addressees not having Navy personnel attached)

R) Subj: AUDIT DECISION AND FOLLOW-UP

R) Ref: (a) SECNAVINST 5200.34C
A) (b) NAVCOMPTINST 5740.4
A) (c) NAPS 15.890
A) (d) OPNAVINST 1700.7D

Encl: (1) Definitions
(2) Audit Liaison
(3) On-Site Verifications

R) 1. Purpose. To establish Chief of Naval Operations (CNO) policy and procedures and assign responsibility for deciding, processing, tracking and following up on audit reports published by the Naval Audit Service (NAVAUDSVC), Navy Resale and Service Support Office, and CNO activities.

A) 2. Cancellation. OPNAVINST 5200.24 (NOTAL).

3. Applicability

R) a. Reference (a) and the provisions of this instruction will be implemented by the Office of the Chief of Naval Operations (OPNAV), commanders in chief, commanders and commanding officers, as applicable. Ships, aircraft squadrons and the immediate Unit Commanders of the Operating Forces are not subject to the reporting requirements contained in enclosure (1) to reference (a).

A) b. The policies and procedural provisions of this instruction do not apply to audits issued by the General Accounting Office (GAO), Defense Contract Audit Agency (DCAA), and Department of Defense Inspector General (DODIG). Follow-up policies and procedures

for GAO and DODIG audits are contained in reference (b). Follow-up policies and procedures for DCAA audits are contained in reference (c).

c. The Commander, Naval Military Personnel Command (NMPC-6) is responsible for Nonappropriated Fund Instrumentalities follow-up for fiscal oversight and management reviews performed by NMPC-65 fiscal oversight staff, and Certified Public Accountant audits performed under contract to NMPC-65, for morale, welfare and recreation activities (MWR) (i.e., recreation activities, clubs and messes) (reference (d) refers). (A)

4. Definitions. Terms used in this instruction are defined in enclosure (1). (R)

5. Policy. CNO recognizes audit as an important element of Department of the Navy (DON) management systems. Prompt, responsive and constructive corrective actions shall be taken by managers in response to audit organizations' audit reports to improve economy, effectiveness and efficiency of CNO operations. Disputes over audit findings, recommendations or monetary benefits shall be well-documented and based on sound rationale. An effective and efficient follow-up system shall provide for a complete and documented record of action taken on findings, recommendations and monetary benefits. All findings, recommendations, and monetary benefits should be decided at the lowest level within the chain of command. Focal points should be established at each level of command to act and follow-up on the findings and recommendations.

6. Responsibilities

a. Under Secretary of the Navy (UNSECNAV). UNSECNAV is responsible for the DON Audit Follow-up Program and is the adjudicator of disagreements over findings, recommendations and monetary benefits between NAVAUDSVC and CNO. (A)

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R) **b. Naval Inspector General (NAVINS-GEN).** NAVINSGEN is responsible for managing and overseeing audit follow-up in the Navy. He maintains a database of all audit reports issued by NAVAUDSVC. NAVINSGEN also provides oversight of on-site verification reviews (enclosure (3)) and prepares the DON Semiannual Follow-up Status Report.

A) **c. Vice Chief of Naval Operations (VCNO).** VCNO directs the CNO Audit Decision and Follow-up Program and implements program policy for CNO. To support VCNO, the Assistant Vice Chief of Naval Operations (AVCNO) is responsible for program management and administration.

A) **(1) AVCNO.** AVCNO is responsible for follow-up of NAVAUDSVC audit report findings and recommendations addressed to CNO (enclosure (2) refers). He has oversight responsibility for audits conducted by CNO audit organizations. He maintains a database of audit reports issued by NAVAUDSVC to CNO. Responsibilities also include:

(a) Interpret policy and develop and issue procedures for dealing with NAVAUDSVC.

(b) Issue program and technical guidance.

(c) Distribute NAVAUDSVC reports addressed to CNO to appropriate OPNAV Principal Officials for corrective action.

(d) Establish and maintain a follow-up database for monitoring recommendations addressed to CNO.

(e) Ensure adequacy and timeliness of responses to audit findings, recommendations and monetary benefits.

(f) Coordinate and validate all monetary benefits addressed to CNO.

(g) Coordinate and prepare CNO's responses to audit recommendations.

(h) Serve as CNO's representative to mediate differences between NAVAUDSVC and OPNAV Principal Officials regarding undecided recommendations.

(i) Represent CNO when undecided audit findings and recommendations are referred to UNSECNAV for adjudication.

(2) **OPNAV Principal Official.** (A) OPNAV Principal Officials (OP-01, 02, etc.) are responsible for providing timely management responses to audit findings, recommendations, and monetary benefits when tasked by AVCNO in compliance with reference (a). Responsibilities include:

(a) Establish a focal point to coordinate all audit findings, recommendations, and monetary benefits.

(b) Maintain a database that monitors the status of findings, recommendations, and monetary benefits.

(c) Provide responses to draft NAVAUDSVC findings and recommendations and monetary benefits.

(d) Participate in decision meetings.

(e) Conduct, within one year of completion of agreed-upon corrective action, on-site follow-up verifications or audits to ensure that deficiencies of all reported audit findings have been corrected and monetary benefits have been achieved. Some verifications or audits will include conducting selective tests at one Navy command or activity, while others will include testing at several subordinate commands when the finding is considered Navy-wide.

(f) Maintain documentation of all on-site follow-up verifications or audits. Documentation will include copies of all pertinent instructions, lists of sites visited and personnel contacted, and copies of any documents used in the test(s) that prove(s) corrective actions were achieved.

(g) Prepare written verification reports to VCNO via AVCNO indicating adequacy of corrective action taken on recommendations verified (DD-IG(SA)1574 applies).

A) d. Echelon 2 Commands and Subordinates. All naval commands are responsible for providing adequate management replies to audit findings and recommendations. To achieve those requirements each command shall:

(1) Establish focal points to act and follow-up on the findings and recommendations addressed in audit reports. Focal points shall:

(a) Serve as the commanding officer's representative to mediate differences between NAVAUDSVC and operating officials.

(b) Distribute audit reports to management staff for appropriate comments.

(c) Coordinate and prepare command replies to audit recommendations.

(2) Comment regarding concurrence or nonconcurrence (with rationale on each finding, recommendation, and potential monetary benefits/draft audit, final audit report and upon closure of a specific recommendation).

(3) Coordinate and validate all monetary benefits addressed in audit reports.

(4) Establish and maintain a follow-up database that monitors all audit recommendations addressed to the command for corrective action.

(5) Ensure adequacy and timeliness of responses to audit findings and recommendations and monetary benefits.

(6) Issue local guidance on audit liaison functions.

(7) Ensure audit organizations' findings and recommendations are tracked/monitored

until action is completed. Reports shall be recorded as closed in follow-up records only after cognizant managers have furnished explicit written confirmation that all agreed-upon corrective actions have been completed or on-site verification has so indicated, and documentation is contained in the follow-up files. Monetary benefits shall be recorded in follow-up systems as having been achieved only after cognizant managers have completed the related corrective actions and have furnished explicit written confirmation, including documentation such as references to official budget or accounting data, or if such documentation is not feasible, an updated estimate and the rationale for that estimate.

(8) When planned corrective action exceeds one year, management shall establish a plan of action and milestones to insure satisfactory progress is made towards completing the agreed-upon corrective action. Provide implementation status reports to NAVAUDSVC, copy to NAVINSGEN.

(9) Ensure that performance appraisal of appropriate officials reflect effectiveness in deciding and implementing audit recommendations.

(10) Provide status of each local audit finding and recommendation including monetary benefits to NAVAUDSVC by 15 February and 15 August.

(11) Determine and document the status of agreed-upon open corrective actions for NAVAUDSVC findings, recommendations and monetary benefits in follow-up files semiannually for all reports exceeding one year from the date of issue. Exhibit B of reference (a) provides the format for reporting corrective action status. In addition, provide information to NAVAUDSVC and copy to NAVINSGEN, by 15 February and 15 August.

(12) Prepare and forward copies of on-site verification plans and results to NAV-INGEN within 30-days of the end of each quarter. Subordinate activities should forward their plans and results up the chain of command for inclusion and submittal in the Echelon 2 Commands' report.

(13) Conduct, within one year of completion of agreed-upon corrective action, on-site follow-up verifications or audits to ensure that all reported deficiencies in audit findings addressed to the command have been corrected and monetary benefits have been achieved.

(14) Maintain documentation and written reports for each on-site verification or audit.

(15) When requested, assist higher echelon officials in conducting on-site follow-up verification reviews. That may include preparing and forwarding appropriate documentation and drafting on-site verification reports or sections thereof.

(16) Prepare and forward (Echelon 2 Commands) semiannual follow-up status reports required by reference (a) to the NAVINGEN within two weeks after the close of each semiannual reporting period ending 31 March and 30 September.

(17) Forward any local audit report requested by NAVINGEN or NAVAUDSVC concurrently to CNO (OP-09B4).

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J. L. JOHNSON
Vice Chief of Naval Operations

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DEFINITIONS

1. Audit. An official examination or verification by an audit organization of an activity's financial records, programs and operations. The review is performed or supervised by professionally qualified auditors in full conformance with GAO audit standards. (A)
2. Audit Follow-up. A process by which responsible management action is taken to decide problems documented in audit findings and necessary management action is taken to adequately complete open audit recommendations. Audit follow-up officially begins when the audit is published and officially ends on the date of explicit written confirmation of completion of required management action or, if appropriate, when all on-site verification is completed. (A)
3. Audit Liaison. Formal process that management utilizes when interacting with audit and oversight organizations. Process includes focal points, entrance and exit conferences, status reports, findings and recommendations, tracking and monitoring, follow-up and decision. (A)
4. Audit Organization. An auditing organization is the agency conducting the audit. External organizations are: the GAO, the Inspector General, DODIG for Auditing, and the Defense Contract Audit Agency. The NAVAUDSVC is the DON internal audit organization. Other DON audit organizations include the Navy Resale Support Office and commands having Local Audit staffs. (A)
5. Audit Report. The results of an audit published by an audit organization containing findings and recommendations. Some audit reports may be informational and contain no recommendations. (A)
6. Coordination. Assistance by the responsible focal point to the auditing agency and the audited command to facilitate the audit process. (A)
7. Decided. An agreement has been reached between management and auditors on previously undecided findings, recommendations or monetary benefits or a decision has been made by a senior official settling the disagreement. (A)
8. Deficiency. Any instance reported by auditors concerning noncompliance with requirements of law and directives; unauthorized damage, destruction or reduction in value of government resources; (A)

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unreasonable consumption, under-use, inefficient or ineffective use or unauthorized disposition of government resources; and incurrence of unnecessary costs.

- A) 9. Finding. A statement made by an audit organization on the basis of information developed about an organization, program, activity, function, condition or other matters which were analyzed or evaluated.
- A) 10. Focal Point. The entity within the command structure charged with audit coordination and audit follow-up responsibilities.
- A) 11. Internal Audits. An independent review and evaluation conducted by the NAVAUDSVC of the economy, efficiency and effectiveness with which managerial responsibilities are being carried out.
- A) 12. Local Audits. Audits performed by the commanding officer's local audit staff established in accordance with SECNAVINST 7510.9 and OPNAVINST 5000.52. This command audit function must perform audits in accordance with the policies and standards of the AUDGENAV. Upon request, local audit reports are subject to release to the AUDGENAV or investigators.
- A) 13. Management Decision. The evaluation by management of the findings, recommendations, and monetary benefits included in an audit report and the issuance of a final decision by management concerning its response including action concluded to be necessary.
- A) 14. Monetary Benefits. Benefits from audits classified as either a collection or budgetary reduction; or a potential cost avoidance, or funds put to better use and identified as either a one-time or an annual benefit.
- A) 15. On-site Verification. A visual review to determine if agreed upon audit follow-up action was taken and potential monetary benefits, if any, were realized.
- A) 16. Oversight. The monitoring or actions taken by focal points in administering and managing the audit process to ensure focal point efficiency and effectiveness.

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17. Recommendation. A proposed suggestion by an audit organization to remedy discrepancies or shortcoming as specified in the audit report findings.

(A)

18. Significant Recommendation. A recommendation involving monetary benefits of \$250,000 or more for an Echelon 1 or 2 Command, or \$50,000 for Echelon 3 and junior commands. Major systemic problems or safety and health-related discrepancies are also significant and each requires on-site verification after remedial action is completed.

(A)

19. Undecided. Management has not yet commented on an audit organization's findings, recommendations, or estimated potential monetary benefits, or does not concur and the audit organization does not agree with the management position. Also applied when management and the audit organization are attempting to decide disagreements at lower levels, or the disagreement is being submitted to a senior official for decision.

(A)

AUDIT LIAISON

The audit liaison function consists of representing the command when working with audit and oversight organizations. Specific duties include but are not limited to:

1. Receive and process audit reports to management.
2. Maintain a database of all audit findings, recommendations and monetary benefits.
3. Provide logistic support to audit organizations.
4. Arrange appointments and conferences between auditors and management officials.
5. Task management to provide comments to draft and final audit findings and recommendations, and monetary benefits.
6. Track and monitor taskings for timely responses.
7. Receive and analyze management responses on whether they adequately address findings, recommendations and monetary benefits.
8. Prepare and coordinate formal responses to audit findings and recommendations.
9. Track and monitor open recommendations.
10. Provide implementation status to the AUDGENAV, NAVINSGEN and CNO (OP-09B4).
11. Schedule or conduct on-site verifications of significant closed recommendations.
12. Track and monitor significant recommendations to ensure verification is performed.
13. Report on-site verification results of NAVAUDSVC audits to NAVINSGEN. Report instances of non-compliance with agreed-upon NAVAUDSVC recommendations to the Immediate Superior in Command (ISIC) for action, AUDGENAV, NAVINSGEN and CNO (OP-09B4) for oversight purposes.
14. Perform mediation and resolution functions.

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15. Prepare semiannual follow-up status reports to NAVINSGEN.
16. Serve as "honest broker" between the audit organizations and management officials.

ON-SITE VERIFICATIONS

1. On-site verifications, reviews or audits are processes to verify that a command has corrected findings/deficiencies disclosed in audit report (reference (a) refers). Commands or staff activities may use the following to satisfy that requirement:

- a. Program Managers
- b. Command Inspection
- c. Command Evaluation
- d. NAVAUDSVC
- e. Chain of Command

2. The following list provides steps to be taken before or during on-site verification:

- a. Obtain copies of the final audit report, command responses and pertinent instructions.
- b. Develop an outline or list of objectives to be accomplished based on corrective action statements (i.e., what command/action office agreed to do).
- c. Determine and select sites (commands, activities, offices, etc.) for review.
- d. Select a sample or devise a method to test discrepancies identified in the audit report. Sample should be large enough to provide a basis for reaching conclusions on the adequacy of corrective actions.
- e. Through observation, interview and testing of records, analyze sample or test, and record results in workpapers.
- f. Maintain documentation (workpapers) for each finding and/or recommendation tested.
- g. Based on the on-site verification and documentation, prepare a report on the results of the review. If the condition of the original finding/deficiency still exists, then additional recommendations are required. In instances where there are repeat findings, copies of the on-site verification report will be forwarded to CNO (OP-09B4) via the ISIC for action, AUDGENAV, and the NAVINSGEN for oversight purposes.

Enclosure (3)

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h. Establish a follow-up system that monitors corrective actions on significant recommendations until they are verified by an on-site visit.